

**Wildwood Water Service Company
Docket No. 01-0178**

ILLINOIS
COMMERCE COMMISSION

Nov 5 11 07 AM '01

Testimony of Steven Lubertozi

CHIEF CLERK'S OFFICE

Q. Please state your name, title and business address.

A. Steven Lubertozi, Director, Regulatory Accounting
Utilities, Inc., 2335 Sanders Rd., Northbrook, IL 60062

Q. What are the responsibilities of your current position?

A. My responsibilities encompass all aspects of utility commission regulation in fifteen of the states in which Utilities, Inc. has operations. My regular duties include the preparation of rate case applications, obtaining utility commission approval of utility system transfers and developing and delivering testimony before utility commissions.

Q. What is the purpose of your testimony?

A. To address the two discreet requests for further information or clarification made by the Illinois Commerce Commission ("Commission"). The Commission requested that the Applicants: (1) identify and quantify items of anticipated cost savings; and (2) clarify the meaning of the term "additional prudent expenses" contained in the Direct Testimony of Erin L. Nicholas. I am testifying with respect to these issues at this time because Ms. Nicholas is no longer employed by Utilities, Inc.

Q. On Page 7 of the Direct Testimony of Erin L. Nicholas, Ms. Nicholas stated that "cost savings are expected to occur as a result of [Wildwood Water Service

Co.]’s affiliation with [Utilities, Inc.]” Can you identify and quantify any items for which such cost savings are anticipated?

A. Yes. As shown in the chart attached as SL Exhibit 1, we identified three cost items in the Wildwood Utility Co. books that we believe will be reduced as a result of the operation of the utility system by Wildwood Water Service Co. through its affiliation with the Utilities, Inc. group of companies. Those items are expenses for (1) chemicals, (2) rent, and (3) insurance. A rough estimate of the total cost savings with respect to those items is \$5,250.

Q. How did you develop those estimates?

A. As explained more fully in the footnotes to the chart in SL Exhibit 1, we compared the Wildwood Utility Co. year 2000 statement of income to the year 2000 statement of income for the Utilities, Inc. affiliated water service system that was most similar to the Wildwood Utility Co. system and, to the best of our ability, compared expense items to determine whether the potential for cost savings existed.

Q. Is the estimate of total cost savings a total net cost of savings based on a cost of service study?

A. No. The items identified are only individual areas of estimated cost savings. The chart in SL Exhibit 1 is not a cost of service study, and should not be interpreted as such. Indeed, it is possible that once Wildwood Water Service Co. begins operating the system, the total costs will rise as a result of expenses incurred to repair and upgrade the system in order to bring the quality of the system up to the level of Utilities, Inc.’s other systems. Thus, even assuming that the identified

items of potential cost savings actually produce the \$5,250 estimated amount of cost savings shown in SL Exhibit 1, the possibility of an increase in total costs means that there may be no net cost savings as a result of the acquisition.

Q. On page 7 of the Direct Testimony of Erin L. Nicholas, Ms. Nicholas states: "Any cost savings and/or additional prudent expenses brought about by this merger will be passed on to the rate-payers." Can you elaborate on what was meant by "additional prudent expenses"?

A. The "additional prudent expenses" to which Ms. Nicholas referred are those expenses, such as those related to the maintenance, repair and upgrade of the Wildwood Utility Co. system, that may have to be incurred in order to provide Wildwood Water Service Co. customers with the same high quality water service that customers of other Utilities, Inc. subsidiaries receive. As indicated in the testimony of Ms. Nicholas, the need for and amount of these expenses cannot be determined at this time because a Utilities, Inc. company is not currently operating the system. Thus, the "additional prudent expenses" referred to by Ms. Nicholas are not expenses incurred in effecting the acquisition, but are operating expenses that may be incurred going forward. Further, the nature of such expenses is such that, if they are in fact incurred, they would be necessary expenses even if the acquisition had not occurred.

Q. Please explain why "additional prudent expenses," if incurred, should be passed on to rate-payers.

- A. As explained above, if any "additional prudent expenses" are incurred, they will be incurred as necessary operational expenses. Substantial Commission precedent indicates that such expenses are properly included in rate-base. Of course, the determination of whether such expenses should be passed on to rate-payers will occur at a future rate-case.